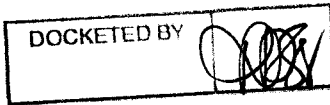


NOV 19 2010

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PIERCE PROPOSED AMENDMENT #1

DATE PREPARED: November 18, 2010

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AZ CORP COMMISSION
DOCKET CONTROL

COMPANY: UNS Electric, Inc.

DOCKET NOS: E-04204A-10-0265

OPEN MEETING DATE: November 22 and 23, 2010 AGENDA ITEM: U-36

Page 15, Line 14:

INSERT new heading "**Commission Findings**"

"The Commission is concerned that the proposed \$9.00 monthly residential cap, while significantly superior to the \$12.00 monthly residential cap proposed by the Company, is still more than twice the amount of the residential cap approved or proposed for any other electric utility in Arizona. We do not believe it is sustainable or equitable for residential customers of UNS to pay \$9.00 a month via the REST surcharge, when the residential customers of Arizona Public Service and Tucson Electric Power are paying less than half that amount.

"A.A.C. R14-2-1808(A) authorizes UNS to recover the "reasonable and prudent costs of complying with [the REST] rules." UNS bears the burden of demonstrating that each of its proposed budget line items are reasonable, prudent and *necessary to comply* with the REST rules. Based on the record before us and based on our experience, the Commission is not fully satisfied that UNS' projected labor costs are reasonable, prudent and necessary costs of compliance. Accordingly, we will reduce all estimated labor expenses by 50%. In the future, we may require UNS to document its labor expenses more fully. Additionally, we will zero the budget for "Outreach efforts," "Support to University Research," and "Net Metering" as these expenses appear insufficiently tied to compliance with the REST rules. Finally, we will reduce the initial residential UFI incentive from \$1.75 per watt to \$1.60 per watt and reduce the initial commercial UFI incentive from \$1.50 per watt to \$1.30 per watt.¹ The aggregation of these adjustments will reduce UNS' 2011 REST implementation budget to \$8,069,914. These adjustments are reflected in the following table:

¹ The conditional trigger to reduce the residential and commercial incentive to \$1.50 and \$1.25, respectively, will remain the same.

THIS AMENDMENT:			
_____ Passed _____	Passed as amended by _____		
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____	

Budget Components	2011 REST Plan UNS Proposed Budget	2011 REST Plan Staff Proposed Budget	2011 REST Plan Approved Budget
<i>Purchased Renewable Energy</i>			
Above market cost of conventional generation	\$1,440,000	\$1,440,000	\$1,440,000
Other	\$20,000	\$20,000	\$15,000
Subtotal	<i>\$1,460,000</i>	<i>\$1,460,000</i>	<i>\$1,455,000</i>
<i>Customer Sited Distributed Renewable Energy</i>			
Up-front payments to customers - residential	\$4,002,552	\$4,002,552	\$3,680,918
Up-front payments to customers - commercial	\$1,051,646	\$1,051,646	\$920,560
Production-based payments to customers	\$1,645,686	\$1,645,686	\$1,645,686
Lost net revenue and performance incentive	\$73,752	\$0	\$0
Outreach efforts	\$150,000	\$150,000	\$0
Other	\$541,750	\$503,750	\$267,750
Subtotal	<i>\$7,465,386</i>	<i>\$7,353,634</i>	
<i>Information Systems</i>			
Subtotal	<i>\$120,000</i>	<i>\$75,000</i>	<i>\$50,000</i>
<i>School Vocational Program</i>			
Subtotal	<i>\$154,000</i>	<i>\$0</i>	<i>\$0</i>
<i>Net Metering</i>			
Subtotal	<i>\$333,938</i>	<i>\$308,938</i>	<i>\$0</i>
<i>Reporting</i>			
Subtotal	<i>\$130,000</i>	<i>\$110,000</i>	<i>\$50,000</i>
<i>Outside Coordination and Support, Research and Development</i>			
Support to university research	\$20,000	\$20,000	\$0
Other	\$33,750	\$2,000	\$0
Subtotal	<i>\$53,750</i>	<i>\$22,000</i>	<i>\$0</i>
<i>Undercollection of REST Funds From 2009</i>			
Subtotal	<i>\$363,356</i>	<i>\$0</i>	<i>\$0</i>
Total Budget	<i>\$10,080,430</i>	<i>\$9,329,572</i>	<i>\$8,069,914</i>

“Reducing the residential cap from \$9.00 to \$5.00 will have the result of reducing the revenue collected via the REST surcharge by \$1,271,550 from \$9,329,572 to \$8,058,022. Accordingly, we believe that it is in the public interest to reduce the monthly residential cap to \$5.00 a month for UNS.” MAKE ALL CONFORMING CHANGES, INCLUDING CORRESPONDING ORDERING PARAGRAPHS.